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SUBJECT: MOROCCO ECONOMIC HIGHLIGHTS: JANUARY 2009

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11. (SBU) Stock Exchange Begins Year on Down Note: Morocco's benchmark Casablanca MASI index has started the year on a downbeat note, falling below 10,000 for the first time since January 2007. Despite a brief technical correction on Friday, January 8, the index, which lost 13 percent in 2008, resumed its downward spiral on Monday, January 12, ending the day at 9548.80. Volumes have been thin, and analysts point to an absence of buyers in the market, given continuing uncertainty over the world economy. Real estate developer Addoha has experienced some of the steepest declines, on continuing concerns about weakness in the real estate sector. Press reports indicate that with the accelerating slowdown in higher end properties, the company is reorienting itself towards "social housing," a sector for which it earlier had little time. Given concerns about real estate and exports, market analysts predict continued market weakness through the first half of 2009.

12. (SBU) Anti-corruption Headlines January 6...: Rabat marked Morocco's "National Day to Combat Corruption" with the first meeting of the new Central Agency to Combat Corruption. Members of the 45-person plenary met to map their strategy over the coming months. In meetings with us, as well as in his comments to the press, Agency head Abdeslam Abouddrar has made clear that he intends to use his bully pulpit to encourage greater government action against corruption and will go beyond consultation to propose "concrete steps" to the government. Two Gendarmerie officers in Settat were the first victims of the new anti-corruption drive, as they were arrested and charged with accepting bribes on January 5. We are exploring internally and in cooperation with other donors how we can most effectively support Abouddrar's work.

13. (SBU) ...While Morocco's Competition Council Finally Takes Shape: Also on January 6, Prime Minister Abbas El-Fassi inaugurated Morocco's long-awaited Competition Council, another component of the country's effort to "upgrade" its economy and ensure transparent and fair competition. The installation followed by eight years the adoption of the law establishing the Council in 1999. Council President Abdelali Benamour dismissed arguments that the council, which like its corruption counterpart lacks enforcement authority, will be a "paper tiger." His royal nomination, he insisted, is synonymous with enhanced prerogatives, means, and autonomy." He added that the council will need some time to learn to carry out its monitoring mission effectively. At that point, he said, enhancement of the council's mandate might be appropriate. Members of the audience observing the council's installation expressed surprise and no small consternation that the 12-member panel included no women, an oversight that senior Primature officials themselves criticized in comments following the ceremony.

¶4. (U) Eight Million: A ceremony at Marrakech airport last week marked Morocco's attainment of 8 million tourists in 2008, an important milestone on its way to the target of 10 million visitors established in its "Vision 2010" program for the sector. Arrivals increased 7 percent last year, down from the double digit increases that marked earlier years, led principally by increases from Arab states, the Netherlands, Spain, and Poland. With the international economic crisis, observers expect that Morocco is unlikely to reach its 2010 goal of 10 million tourists until some time after the target year. Some critics question the Ministry's statistics, arguing that inclusion of Moroccans resident abroad in the total (they represented a third of all arrivals in 2008), artificially inflates the numbers. The industry is braced for a difficult year in 2009, as most of its principal markets are in recession. We plan to attend an annual tourism industry meeting this week in Marrakech, and will report further on the sector's plans thereafter.

¶5. (SBU) Budget Approved: Morocco's 2009 budget was approved by Parliament in the final week of December and published in the Official Bulletin on December 31. The budget plan is notable for its strong concentration on social sectors (55 percent of total expenditure) and for the increased investment spending it provides for key infrastructure and other projects (commentators note the increase is three times the increase in recent years). Press commentary has also focused on the increased spending on the military, with allocation of funding to purchase new weapons systems, including the F-16 fighter. Finance Minister Mezouar has stressed that the budget is ambitious but attainable, and underlined the conservative projections on which it is based, including notably oil at 100 USD a barrel and only modest increases in tax revenue. Morocco's growth forecast has been moderated, down to 5.8 percent from the government's earlier hope for 7 percent growth through 2010, but most observers expect still more slippage, as the impact of the world economic slowdown hits home. The budget also continues the Ministry's incremental approach to tax reform: the top income tax bracket will fall to 40 percent, from 42 percent, and the threshold at which taxes are first levied has been raised slightly to 28,000 MAD (3,500 USD). Parliament largely ratified the government's vision: the only notable changes it introduced were the threshold change, as well as exemption of electricity imports from VAT to aid in efforts to meet the country's looming capacity shortage.

¶6. (U) Fuel Shift Brings Higher Prices: (U) Morocco intended to start the new year with the removal of leaded gasoline and two more-polluting blends of diesel fuel with a sulfur content of 350 and 10,000 parts per million (ppm) from the consumer market. However, distribution delays of the new unleaded gasoline and 50 ppm diesel due to end of year holidays, large residual stocks of 10,000 and 350 ppm fuel, and insufficient capacity of domestic refineries to produce sufficient 50 ppm diesel has forced a phased introduction. The Ministry of Energy announced that the transition to only unleaded gasoline and 50 ppm diesel will be complete in April 2009. The discontinuation of 10,000 ppm diesel has elicited calls for strikes from the trucking sector, who object to the state-decreed price of the cleaner fuel. The 50 ppm fuel will be sold at the old price of 350 ppm diesel (MAD 10.13 per liter, approximately USD 1.25 per liter, or USD 4.70 per gallon), and therefore will not affect the budget of motorists driving passenger vehicles. However, the new price represents a forty percent increase from the price of the 10,000 ppm diesel currently fueling heavy trucks. Media reports in late December indicated that the Ministry of Energy may lower the price of 50 ppm diesel after 10,000 ppm stocks run out, but a significant increase from the old diesel price could raise the prices of basic food and products across the board.

¶7. (U) Investment Update: 23 new investment projects were approved last week by the government for a total of 16 billion MAD, or 2.5 billion USD. The projects were across a

range of sectors, including tourism, aviation, chemicals, energy, and agro-industry. Analysts will be watching closely to see how the ongoing international crisis impacts foreign investors' plans. Separately, Miloud Chaabi, head of Ynna Holding (one of Morocco's largest business empires) angrily criticized the "pressures and obstacles" that have held up government authorization of many of his own investment projects, and said that as a result he does not plan to undertake any new investments.

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